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Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

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Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

CITADEL STABLE S-1 INCOME FUND

ANNUAL REPORT 2007

CITADEL STABLE S-1 INCOME FUND

Citadel Stable S-1 Income Fund (the "Fund" or "Stable S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on February 15, 2005. The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders of the Fund by special resolution passed at a meeting called for such purpose.

For 2007, Stable S-1 paid total cash distributions of \$0.6996 per unit based on monthly distributions of \$0.0583 per unit which was consistent with distributions paid in 2006.

INVESTMENT HIGHLIGHTS:

	2007	2006	2005
Net Assets per Unit ⁽¹⁾	\$ 7.95	\$ 8.47	\$ 9.32
Market Price per Unit ⁽¹⁾	\$ 7.56	\$ 7.95	\$ 8.95
Trading Premium (Discount)	(4.9%)	(6.1%)	(4.0%)
Cash Distributions per Unit ⁽²⁾	\$ 0.6996	\$ 0.6996	\$ 0.5947
Trailing Yield ⁽³⁾	9.3%	8.8%	n/a
Market Capitalization (\$ millions)	\$ 202.6	\$ 335.0	\$ 509.1

⁽¹⁾ Net assets and market price per unit are based on year end values.

⁽²⁾ First monthly distribution had a record date of February 28, 2005 and was paid March 15, 2005.

⁽³⁾ Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

MANAGEMENT REPORT OF FUND PERFORMANCE

(March 20, 2008)

This annual report for the years ended December 31, 2007 and 2006 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel Stable S-1 Income Fund.

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Stable S-1's investment objectives are to provide investors with stable and sustainable monthly cash distributions and to maintain a Standard & Poor's (S&P) SR-1 stability rating. This rating signifies S&P's assessment that the Fund's trust units have the highest level of distribution sustainability and the lowest level of distribution variability in relation to other rated Canadian income funds. In order to achieve these objectives, the Fund's Investment Manager, Bloom Investment Counsel, Inc., actively manages a diversified portfolio of Canadian income funds and Canadian high yielding investment grade debt necessary to achieve and maintain a SR-1 Stability Rating.

RISK

There are a number of risks associated with an investment in Stable S-1. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within

the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

INCOME TRUST TAX

Bill C-52, an Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007, was given Royal Assent on June 22, 2007 thereby passing into law the Government's imposition of a tax on income trusts starting in 2011. Since the announcement of the income trust tax in October 2006, takeover activity in the trust sector has been significant. We expect that a significant level of takeover activity will persist in the trust sector during the next few years as trusts consider tax mitigating restructuring alternatives leading up to 2011. The tax on income trusts does not directly impact Stable S-1, however the tax will impact many of the holdings within its portfolio.

RESULTS OF OPERATIONS

The overall income trust sector experienced much higher redemptions in 2007 relative to 2006 despite having produced a positive total return of 6.6% in 2007 compared to negative 2.8% in 2006. In addition to the negative funds flow into the sector, weakness in the energy and real estate sectors along with confirmation of the new tax on trust distributions commencing in 2011 weighed on overall valuations. Despite record high oil prices in 2007, energy related trusts were hampered by the rising \$Cdn and escalating costs as well as soft natural gas prices and the prospect of Alberta royalty rate increases. In addition, Reits suffered their first year of negative performance since 1998 as concern over the decelerating US economy and US real estate issues caused by tightening credit depressed Reit unit prices. On the positive side, strong acquisition and privatization activity provided some sector wide unit price support, particularly in the ongoing business trust sector.

As a result of these negative market conditions and the Fund's annual redemption, Stable S-1's net assets declined from \$356.8 million at December 31, 2006 to \$213.0 million at December 31, 2007. At the June 2007 annual redemption, unitholders exercised their right to redeem a total of 14.7 million units for a total cost of \$130.2 million or \$8.83 per unit. On a per unit basis, the Fund's net assets declined from \$8.47 per unit at December 31, 2006 to \$7.95 per unit at the end of 2007.

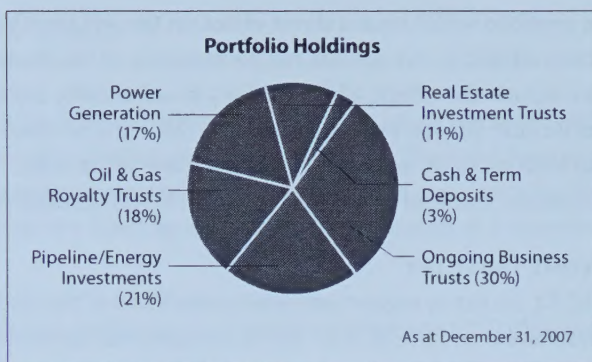
The Fund's market price also declined from \$7.95 per unit at the end of 2006 to \$7.56 per unit at December 31, 2007. Stable S-1's market price decline plus monthly cash distributions produced a 3.7% total return for 2007, while the Fund generated a 2.3% total return on a net assets basis. By comparison, the S&P/TSX Income Trust Index returned 6.6% over the same period.

Total revenue for 2007 was \$26.8 million compared to \$38.4 million for 2006. The decline in revenue was due to the reduced asset base as a result of the June 2007 redemption as well as reduced distributions from the Fund's portfolio. Administrative and investment manager fees, which are paid in units and calculated in reference to the Fund's net asset value, decreased to \$3.5 million in 2007 from \$5.4 million in 2006 as the average net asset value fell. Trailer fees, which are also calculated in reference to the Fund's net asset value, were \$1.1 million in 2007, down from \$1.7 million in 2006. General and administration costs, including portfolio transaction costs and other expenses, increased to \$0.9 million in 2007 compared to \$0.6 million in 2006. The reason for the increase relates to the inclusion of portfolio transaction costs of \$0.3 million in 2007 which are not reflected in the 2006 figures due to the implementation of the new accounting standard on financial instruments. After total expenses of \$5.5 million, the Fund generated net investment income of \$21.4 million or \$0.62 per unit for 2007 compared to \$30.8 million or \$0.62 per unit in 2006.

In order to fund its annual redemption in June and ongoing mandatory repurchases, the Fund realized losses of \$0.6 million on the disposition of numerous investments in 2007 compared to realized losses of \$21.0 million in

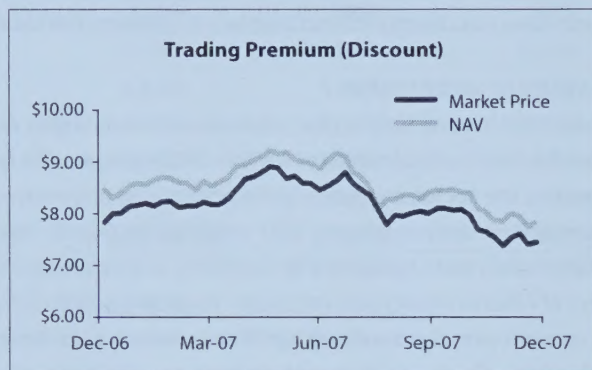
2006. The Fund's portfolio also experienced unrealized losses of \$5.0 million in 2007, which contributed to total results of operations of \$15.8 million or \$0.46 per unit. Unrealized losses of \$19.0 million in 2006 contributed to total results of operations of negative \$9.1 million or negative \$0.18 per unit.

During 2007, Stable S-1 paid monthly distributions of \$0.0583 per unit for a total of \$23.2 million or \$0.6996 per unit compared to \$33.9 million or \$0.6996 per unit in 2006.



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For 2007, the Fund's market price traded at an average discount to its net asset value per unit of 4.4% compared to an average discount of 4.9% for 2006. With this discount, the Fund repurchased 1,099,200 units at an average cost of \$8.11 per unit for 2007 under its mandatory repurchase program compared to 2,156,000 units at an average cost of \$8.49 per unit for 2006. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.



STABILITY RATING

Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2007, the Fund maintained its SR-1 stability rating and expects to maintain the rating for the foreseeable future.

RECENT DEVELOPMENTS

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Stable S-1's three person Independent Review Committee ("IRC") was formed on April 1, 2007 and became fully operational on November 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures were adopted on November 1, 2007 and the Fund was in full compliance with NI 81-107 at that time.

New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments

into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. Upon adoption on January 1, 2007, the Fund was not party to any derivative contracts. Portfolio investments were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

As outlined in National Instrument 81-106 Section 14.2, the net asset value ("NAV") of an investment fund is to be calculated in accordance with Canadian GAAP. The Canadian Securities Administrators ("CSA") granted temporary relief to investment funds from complying with Section 3855 for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements. This relief period has been extended until September 30, 2008. The CSA has proposed amendments to NI 81-106 that will permit funds to have two different net asset values; one for financial statements which will be prepared in accordance with Canadian GAAP (referred to as "net assets" or "net assets per unit"); and another for all other purposes (referred to as "net asset value" or "net asset value per unit"). Until that time, the Fund intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements. This Management Report of Fund Performance has been prepared based on the proposed amendments and the December 31, 2007 annual financial statements have been presented in accordance with the new accounting rules.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom. The forward looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward looking statements.

RELATED PARTY TRANSACTIONS

Stable Yield Management Inc. is the administrator of Stable S-1, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units monthly in arrears. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for each year since inception to December 31, 2007.

Net Assets per Unit ("NAPU")

	2007	2006	2005 ⁽¹⁾
NAPU, beginning of period	\$ 8.47	\$ 9.32	\$ 9.46
Increase (decrease) from operations:			
Total revenue	0.78	0.78	0.69
Total expenses	(0.16)	(0.15)	(0.14)
Realized gains (losses)	(0.02)	(0.42)	(0.03)
Unrealized gains (losses)	(0.14)	(0.38)	(0.07)
Total increase (decrease) from operations	0.46	(0.17)	0.45
Distributions:			
From net investment income	0.70	0.70	0.59
Total cash distributions	0.70	0.70	0.59
NAPU, end of period	\$ 7.95	\$ 8.47	\$ 9.32

(1) The Fund commenced operations on February 15, 2005.

NAPU and cash distributions per unit are based on the actual number of units outstanding at the time. The December 31, 2007 NAPU is based on bid prices and all prior NAPU are based on closing prices. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAPU since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2007	2006	2005
Net assets (\$ 000's)	\$ 213,047	\$ 356,790	\$ 530,388
Number of units outstanding	26,794,266	42,143,765	56,885,629
Management expense ratio	1.76%	1.69%	1.68%
Portfolio turnover ratio	13.47%	19.91%	3.57%
Trading expense ratio	0.11%	0.06%	0.14%
Closing market price	\$ 7.56	\$ 7.95	\$ 8.95

Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

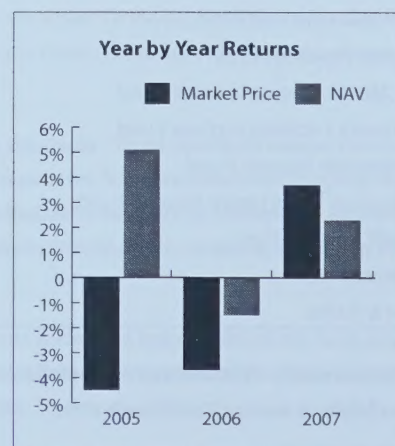
MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units monthly in arrears. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for a portion of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

PAST PERFORMANCE

Stable S-1's performance numbers represent the annual compound total returns over the period from inception in February 2005 to December 31, 2007 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net assets per unit plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.



ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Stable S-1 based on market price and net assets per unit with comparison to the S&P/TSX Capped Income Trust Index for the period indicated to December 31, 2007. The S&P/TSX Capped Income Trust Index is a total return based on a market cap weighted index of all Global Industry Classification Standards of the income trust sector. In 2007, Stable S-1's net assets return underperformed the index as the benefit of its relative overweight position in the ongoing business trust sector was offset by less than optimal trust selection.

	1 Year	Since Inception
Stable S-1 (market price)	3.69%	(1.62%)
Stable S-1 (net assets)	2.35%	2.07%
S&P/TSX Capped Income Trust Index	6.61%	8.44%

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2007

Net Assets: \$213,047,165

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	29.6%
Pipeline / Energy Investments	21.0%
Oil & Gas Royalty Trusts	18.0%
Power Generation Investments	17.0%
Real Estate Investment Trusts	11.3%
Cash and Term Deposits	2.9%
Other assets, net of liabilities	0.2%
Total Net Assets	100.0%

TOP 25 HOLDINGS (AS A % OF NET ASSETS)

Atlantic Power Corporation	5.1%	Bell Aliant Regional Comm. Income Fund	2.8%
Fort Chicago Energy Partners L.P.	5.1%	Telus Corp.	2.7%
Yellow Pages Income Fund	4.6%	Bonavista Energy Trust	2.7%
Northland Power Income Fund	4.5%	Baytex Energy Trust	2.7%
AltaGas Income Fund	4.3%	Innergex Power Income Fund	2.7%
Inter Pipeline Fund	4.2%	Epcor Power L.P.	2.6%
CML Healthcare Income Fund	4.2%	Chemtrade Logistics Income Fund	2.6%
Keyera Facilities Income Fund	4.1%	Firm Capital Mortgage Investment Trust	2.4%
Noranda Income Fund	3.9%	Superior Plus Income Fund	2.3%
SunGro Horticulture Income Fund	3.3%	NAL Oil & Gas Trust	2.3%
ARC Energy Trust	3.1%	Boralex Power Income Fund	2.1%
Riocan Reit	2.8%	Extendicare Reit	1.7%
H & R Reit	2.8%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

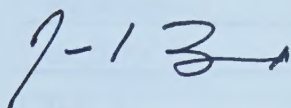
MANAGEMENT'S RESPONSIBILITY STATEMENT

The financial statements of Citadel Stable S-1 Income Fund have been prepared by Stable Yield Management Inc. ("SYMI") and approved by the Board of Directors of SYMI. SYMI is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

SYMI maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

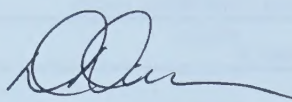
The Board of Directors of SYMI is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of SYMI and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall
Chief Executive Officer
Stable Yield Management Inc.

March 20, 2008



Darren K. Duncan
Chief Financial Officer
Stable Yield Management Inc.

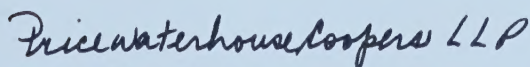
AUDITORS' REPORT TO UNITHOLDERS

To the Unitholders of Citadel Stable S-1 Income Fund

We have audited the statements of net assets and investments of Citadel Stable S-1 Income Fund as at December 31, 2007 and 2006, and the statements of operations and comprehensive income and changes in net assets for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2007 and 2006 and the results of its operations and the changes in its net assets for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.



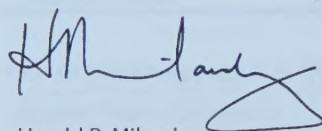
Chartered Accountants
Calgary, Alberta
March 20, 2008

STATEMENT OF NET ASSETS

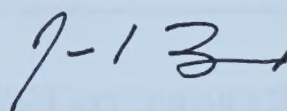
As at December 31	2007	2006
Assets		
Investments, at market	\$ 206,479,455	\$ 340,695,610
Cash and term deposits	6,264,545	15,954,814
Revenue receivable	1,983,696	2,951,306
Accounts receivable	89,852	222,286
Prepaid expenses	6,077	6,119
	214,823,625	359,830,135
Liabilities		
Accounts payable and accrued liabilities	214,354	379,296
Payable for investments purchased	–	204,158
Distributions payable	1,562,106	2,456,982
	1,776,460	3,040,436
Net Assets representing Unitholders' Equity	\$ 213,047,165	\$ 356,789,699
Units outstanding (note 3)	26,794,266	42,143,765
Net Assets per unit	\$ 7.95	\$ 8.47

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME

For the years ended December 31

	2007	2006
Revenue		
Distribution income	\$ 25,638,897	\$ 35,627,527
Interest income	992,156	2,450,330
Securities lending income	207,257	350,294
	26,838,310	38,428,151
Expenses		
Administrative and investment manager fees (note 4)	3,492,388	5,364,026
Trailer fee (note 5)	1,077,719	1,655,726
Portfolio transaction costs (note 8)	331,256	—
General and administration costs	333,928	306,518
Directors' fees	76,145	72,777
Reporting costs	59,631	106,951
Custodial fees	27,727	40,524
Audit fees	23,639	22,827
Legal fees	20,883	17,766
Trustee fees	19,673	20,818
	5,462,989	7,607,933
Net investment income	21,375,321	30,820,218
Net realized gain (loss) on sale of investments (note 6)	(620,437)	(20,977,612)
Net change in unrealized gain (loss) on investments	(4,991,892)	(18,970,457)
Total results of operations and comprehensive income	\$ 15,762,992	\$ (9,127,851)
Results of operations per unit ⁽¹⁾		
Net investment income	\$ 0.62	\$ 0.62
Net realized gain (loss) on sale of investments	(0.02)	(0.42)
Net change in unrealized gain (loss) on investments	(0.14)	(0.38)
	\$ 0.46	\$ (0.18)

⁽¹⁾ Based on the weighted average number of units outstanding.

see accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

For the years ended December 31	2007	2006
Net Assets – beginning of year	\$ 356,789,699	\$ 530,388,218
Fair Value Adjustment: (note 2)		
Adjust January 1, 2007 to bid prices	(1,214,988)	–
Operations:		
Net investment income	21,375,321	30,820,218
Net realized gain (loss) on sale of investments	(620,437)	(20,977,612)
Net change in unrealized gain (loss) on investments	(4,991,892)	(18,970,457)
	15,762,992	(9,127,851)
Unitholder Transactions: (note 3)		
Issuance of trust units, net	3,296,537	5,099,899
Proceeds from distribution reinvestment plan	725,150	1,102,696
Repurchase and redemption of trust units	(139,084,910)	(136,806,404)
	(135,063,223)	(130,603,809)
Distributions to Unitholders: (note 7)		
From net investment income	(23,227,315)	(33,866,859)
Net Assets – end of year	\$ 213,047,165	\$ 356,789,699
Distributions per unit	\$ 0.6996	\$ 0.6996

see accompanying notes

STATEMENT OF INVESTMENTS

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts								
Arctic Glacier Income Fund	285,000	\$ 3,548,250	\$ 3,263,250		–	\$ –	\$ –	
BFI Canada Income Trust	130,000	3,778,714	3,458,000		207,100	6,019,783	5,570,990	
Bell Aliant Regional Comm. Income Trust	200,000	6,373,580	5,886,000		200,000	6,373,580	5,392,000	
CML Healthcare Income Fund	517,300	6,800,526	8,856,176		600,000	7,887,716	8,370,000	
Chemtrade Logistics Income Fund	657,900	9,559,952	5,552,676		600,000	9,080,146	4,830,000	
Great Lakes Carbon Income Fund	–	–	–		765,358	9,078,227	8,648,545	
KCP Income Fund	–	–	–		727,090	7,596,078	5,409,550	
Noranda Income Fund	865,000	11,801,925	8,338,600		907,714	12,422,066	8,940,983	
Prizm Canadian Income Fund	228,600	3,324,227	1,485,900		491,513	7,172,389	5,765,447	
SunGro Horticulture Income Fund	900,000	7,555,240	7,110,000		987,311	8,288,981	6,921,050	
Telus Corp.	115,000	5,356,700	5,684,450		137,400	8,474,441	7,148,922	
Teranet Income Fund	–	–	–		672,700	6,899,423	5,980,303	
TransForce Income Fund	400,000	5,650,879	3,680,000		–	–	–	
Yellow Pages Income Fund	700,000	9,870,084	9,723,000		1,000,000	14,100,121	12,870,000	
		73,620,078	63,038,052	29.7%		103,392,951	85,847,790	24.0%

(continued on following page)

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
Power Generation Investments								
Algonquin Power Income Fund	—	—	—	—	765,358	8,057,550	7,600,005	—
Atlantic Power Corporation	1,020,000	11,454,406	10,914,000	—	1,607,251	18,049,123	18,145,864	—
Boralex Power Income Fund	760,000	8,911,266	4,453,600	—	765,358	8,974,090	7,179,058	—
Epcor Power L.P.	240,000	7,643,887	5,582,400	—	210,474	7,196,948	5,630,180	—
Innergex Power Income Fund	480,000	6,600,309	5,664,000	—	526,643	7,242,882	6,983,286	—
Northland Power Income Fund	790,000	11,486,248	9,645,900	—	1,200,000	17,447,465	15,684,000	—
TransAlta Power L.P.	—	—	—	—	1,698,979	16,814,375	12,691,373	—
		46,096,116	36,259,900	17.0%		83,782,433	73,913,766	20.7%
Real Estate Investment Trusts								
Canadian Hotel Income Property Reit	—	—	—	—	225,000	3,011,137	3,359,250	—
Dundee Reit	—	—	—	—	480,000	12,349,341	17,779,000	—
Extendicare Reit	300,000	4,490,521	3,720,000	—	400,000	5,987,361	5,812,000	—
Firm Capital Mortgage Investment Trust	502,200	6,330,231	5,082,264	—	535,751	6,753,141	5,598,598	—
H&R Reit	300,000	5,872,486	5,937,000	—	375,000	7,340,608	9,033,750	—
IPC U.S. Reit	—	—	—	—	474,000	5,197,078	5,877,600	—
Innvest Reit	320,000	4,286,855	3,388,800	—	225,000	2,951,640	3,105,000	—
Retirement Residences Reit	—	—	—	—	1,239,879	12,250,179	10,266,198	—
Riocan Reit	275,000	5,078,495	5,981,250	—	329,104	6,077,648	8,276,966	—
		26,058,588	24,109,314	11.3%		61,918,133	69,108,362	19.4%
Oil & Gas Royalty Trusts								
ARC Energy Trust	320,000	6,999,413	6,518,400	—	89,500	2,012,139	1,995,850	—
Baytex Energy Trust	300,000	4,419,043	5,670,000	—	505,136	7,440,725	11,254,430	—
Bonavista Energy Trust	200,000	5,799,202	5,676,000	—	185,000	5,358,149	5,207,750	—
Canetic Resources Trust	270,000	4,828,479	3,593,700	—	443,908	8,108,819	7,297,848	—
Crescent Point Energy Trust	49,500	961,785	1,222,155	—	—	—	—	—
Harvest Energy Trust	170,000	4,844,320	3,507,100	—	294,663	8,396,717	7,729,010	—
NAL Oil & Gas Trust	425,000	6,015,078	4,908,750	—	627,594	8,888,155	7,725,682	—
Paramount Energy Trust	376,200	5,844,422	2,355,012	—	478,349	8,134,239	5,931,528	—
PennWest Energy Trust	100,000	3,830,160	2,581,000	—	150,000	5,865,320	5,335,500	—
Progress Energy Trust	204,600	2,232,588	2,213,772	—	—	—	—	—
		45,774,490	38,245,889	18.0%		54,204,263	52,477,598	14.7%
Pipeline/Energy Investments								
AltaGas Income Trust	350,000	8,775,347	9,205,000	—	379,677	9,525,375	9,947,537	—
Energy Savings Income Fund	—	—	—	—	459,215	7,168,729	6,176,442	—
Fort Chicago Energy Partners L.P.	1,000,000	12,138,926	10,830,000	—	1,200,000	14,566,711	13,764,000	—
Inter Pipeline Fund	950,000	8,839,601	9,006,000	—	1,550,000	14,422,508	14,012,000	—
Keyera Facilities Income Fund	440,000	6,799,127	8,698,800	—	748,750	11,570,105	12,459,200	—
Precision Drilling Trust	140,000	2,347,450	2,102,800	—	—	—	—	—
Superior Plus Income Fund	430,000	5,145,969	4,983,700	—	260,000	2,849,600	2,784,600	—
		44,046,420	44,826,300	21.1%		60,103,028	59,143,779	16.6%
Citadel Stable S-1 units — repurchased for cancellation	—	—	—	—	25,700	204,158	204,315	0.1%
Investments		235,595,692	206,479,455	97.1%		363,604,966	340,695,610	95.5%
Cash and Term Deposits		6,264,545	6,264,545	2.9%		15,954,814	15,954,814	4.5%
Total		\$ 241,860,237	\$ 212,744,000	100.0%		\$ 379,559,780	\$ 356,650,424	100.0%

All portfolio holdings are trust units, except the following: Atlantic Power Corporation – income participating security; Epcor Power L.P. – limited partnership units; Fort Chicago Energy Partners L.P. and Inter Pipeline Fund – Class A limited partnership units and Telus Corp. – common shares.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

1. STRUCTURE OF THE FUND

Citadel Stable S-1 Income Fund (the "Fund" or "Stable S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 6, 2004. The Fund commenced operations upon completion of its initial public offering on February 15, 2005. The Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Administrator with the prior approval of the unitholders of the Fund by special resolution passed at a meeting called for such purpose.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are valued at fair value. The fair value of securities which are actively traded are valued at bid price as published on the recognized stock exchange on which the investment is listed or principally traded. Prior to January 1, 2007, investments were generally valued at the closing price. The fair value adjustment from the closing price as at December 31, 2006, to the closing bid price for investments at December 31, 2007, is reflected in the Statement of Changes in Net Assets. Investments not traded on the valuation date are valued at the average of the closing bid and ask prices. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to unitholders, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest and securities lending income is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the invest-

ments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. Upon adoption on January 1, 2007, the Fund was not party to any derivative contracts. Portfolio investments were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, investments, prepaid expenses, accounts payable and accrued liabilities, payable for investments purchased and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

(f) Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable redeemable units of beneficial interest.

Issued and outstanding	December 31, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Trust units – beginning of year	42,143,765	\$ 408,011,107	56,885,629	\$ 538,614,916
Issued for services (note 4)	402,184	3,296,538	586,101	5,099,899
Issued under DRIP	88,956	725,150	128,441	1,102,696
Repurchase of trust units	(1,099,200)	(8,918,006)	(2,156,000)	(18,299,786)
Redemption of trust units	(14,741,439)	(130,166,906)	(13,300,406)	(118,506,618)
Trust units – end of year	26,794,266	\$ 272,947,883	42,143,765	\$ 408,011,107

The weighted average number of units outstanding for the year ended December 31, 2007 was 34,350,021 units (2006 - 49,521,338 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. For the year ended December 31, 2007, the Fund repurchased 1,099,200 units under this program at an average cost of \$8.11 per unit (2006 – 2,156,000 units at an average cost of \$8.49 per unit).

Unitholders of Stable S-1 can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the 5 day weighted average market price of the Fund's units. For the year ended December 31, 2007, a total of 88,956 units were issued under the DRIP (2006 – 128,441 units).

Unitholders have the right to redeem their units on an annual basis in June of each year, commencing in June of 2006. The redemption value is net asset value less the costs of and associated with selling sufficient investments to meet the redemption amount. On June 29, 2007, a total of 14,741,439 trust units were redeemed for a total cost of \$130.2 million or \$8.83 per unit. On June 29, 2006, a total of 13,300,406 units were redeemed for a total cost of \$118.5 million or \$8.91 per unit.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES / DIRECTORS' FEES

Stable Yield Management Inc. ("SYMI") is the administrator of the Fund and therefore a related party to the Fund. Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment manager fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units monthly in arrears based on the daily average closing price. For the year ended December 31, 2007, the Fund issued 402,184 trust units and recorded an expense of \$3,492,388 in respect of the administrative and investment management fees earned during the period (2006 – 579,055 units and an expense of \$5,364,026). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2007, included in accounts receivable were amounts owed from SYMI of \$89,852 (2006 - \$222,286 included in accounts receivable).

Directors of SYMI received cash fees of \$62,500 in February 2007 (February 2006 – 7,046 units for a value of \$62,500) as payment for their annual retainers.

5. TRAILER FEE

Stable S-1 pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. For the year ended December 31, 2007, the Fund recorded an expense of \$1,077,719 relating to the trailer fee (2006 - \$1,655,726).

6. INVESTMENTS

The net realized gain (loss) on the sale of investments was determined as follows:

For the years ended December 31	2007	2006
Proceeds from the sale of securities	\$ 167,762,695	\$ 181,100,066
Less cost of securities sold:		
Investments at cost – beginning of year	363,604,966	474,206,623
Investments purchased during year	40,373,858	91,476,021
Investments at cost – end of year	(235,595,692)	(363,604,966)
Cost of investments disposed of during year	168,383,132	202,077,678
Net realized gain (loss) on sale of investments	\$ (620,437)	\$ (20,977,612)

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon cash distributions received by the Fund less estimated expenses.

For the years ended December 31	2007	2006
Net investment income for the year	\$ 21,368,321	\$ 30,820,218
Add fees paid by issuance of units	3,359,038	5,099,899
Capital distributed (cash flow retained)	(1,500,044)	(2,053,258)
Cash distributions	23,227,315	33,866,859
Cash distributions per unit	\$ 0.6996	\$ 0.6996

8. PORTFOLIO TRANSACTION COSTS

For the year ended December 31, 2007, the Fund incurred portfolio transaction costs of \$331,256 (2006 - \$262,731) and they are recorded separately in the Statement of Operations for 2007 only, as per Note 2(e).

9. SECURITIES LENDING

The Fund engaged in securities lending during 2007 and as at December 31, 2007, the Fund had lent out \$38.9 million (2006 - \$36.0 million) of its portfolio securities with \$40.9 million (2006 - \$38.7 million) of collateral in primarily federal and provincial bonds.

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CORPORATE INFORMATION

ADMINISTRATORS

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
Suite 3500, 350 - 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Telephone: (403) 261-9674
Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

INVESTMENT MANAGER

**(CTD.un, SDL.un, CHF.un, CRT.un,
SRC.un and CSR.un)**

Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

INVESTMENT MANAGER

(EPF.un, SPU.un and CGF Resource 2006)

Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

INVESTMENT MANAGER

(CPF.un)

Fiera YMG Capital Inc.
1501 McGill College Avenue, Suite 900
Montreal, Quebec H3A 3M8

REBALANCING ADVISOR

(IEP.un, EQW.un and FPR.pr.a)

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Calgary, Alberta T2T 5R6

INDEPENDENT REVIEW COMMITTEE

Stephen Allan - Chairman
John Watson
Duane Keinick

DIRECTORS AND OFFICERS

Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer
Joseph F. MacDonald - Executive V.P. Sales & Marketing

TRUSTEE

Computershare Trust Company of Canada
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530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

CUSTODIAN

CIBC Mellon Global Securities Services Company
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Toronto, Ontario M5H 4A6

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Calgary, Alberta T2P 5C5

AUDITORS

PricewaterhouseCoopers LLP
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Calgary, Alberta T2P 5L3

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed



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